



WEEKLY ECONOMIC DIGEST

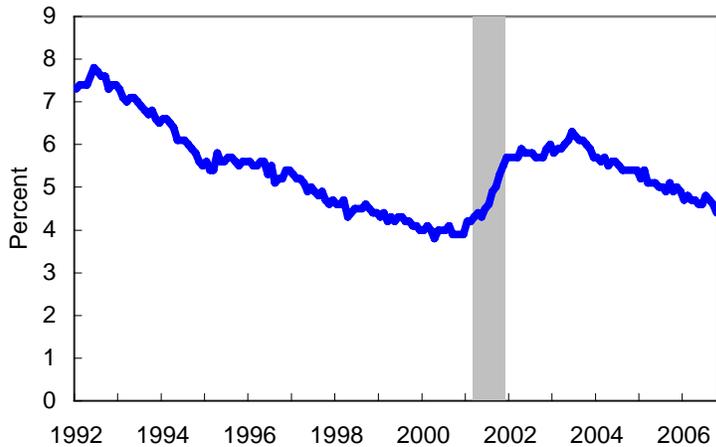


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

November 14, 2006

Unemployment Rate Dips but Economic Growth Has Slowed

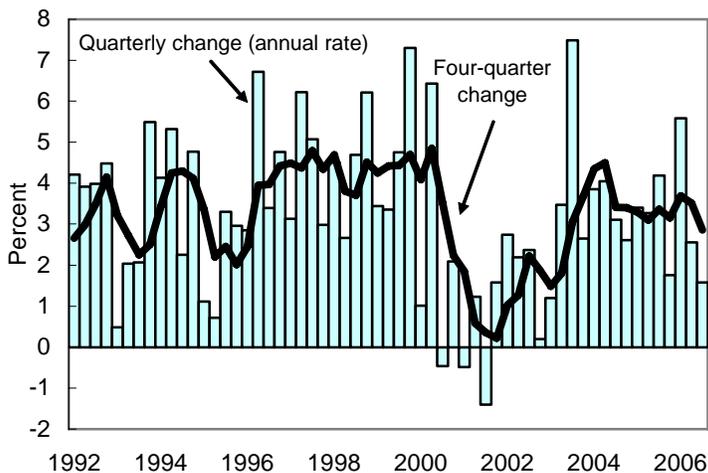
Unemployment Rate



Source: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.

Note: The gray area indicates a period of recession as defined by the National Bureau of Economic Research.

Growth of Real Gross Domestic Product



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

- **The unemployment rate fell, but job growth was modest in October.** The unemployment rate fell to 4.4 percent in October, its lowest rate since mid-2001 (see top chart). That decline came with no increase in labor force participation, however, as the percentage of the population either working or looking for work remained 66.2 percent. Moreover, the separate survey of establishments found that payrolls grew by just 92,000 jobs last month. Most analysts believe that the establishment survey gives the better picture of labor market strength.
- **Economic growth slowed sharply in the third quarter.** Real (inflation-adjusted) gross domestic product (GDP) grew at an annual rate of just 1.6 percent in the third quarter, down a full percentage point from its 2.6 percent pace in the second quarter. Over the past year, real GDP grew 2.9 percent (see bottom chart). Investment in residential housing tumbled at a 17.4 percent annual rate in the third quarter, slicing 1.1 percentage points off the growth of real GDP.
- **Productivity was flat in the third quarter and growth in compensation moderated.** Output per hour worked in private nonfarm establishments was unchanged in the third quarter, while real (inflation-adjusted) compensation per hour (wages plus benefits) grew at an annual rate of just 0.7 percent. Real compensation per hour has risen 3.2 percent in the past year largely due to a jump in compensation in the first quarter thought to reflect bonuses and stock options. Since the first quarter of 2001, however, real compensation per hour has grown at a 1.7 percent annual rate compared with 3.0 percent for productivity.
- **The trade deficit narrowed some in September.** U.S. exports of goods and services rose by \$0.6 billion while imports shrank by \$4.1 billion, lowering the trade deficit in September to \$64.3 billion from a record \$69.0 billion in August. Nevertheless, the trade deficit remains unsustainably large and is on pace to set another annual record this year.

The Economy at a Glance	Oct	Sep	Aug	Jul	2006 Qtr 3	2006 Qtr 2	2006 Qtr 1	2005 Qtr 4	2005	2004
Economic Activity										
Real GDP (% growth)	—	—	—	—	1.6	2.6	5.6	1.8	3.2	3.9
Industrial Production (% growth)*	n.a.	-7.0	0	3.7	3.6	6.6	5.1	5.3	3.3	4.1
Capacity Utilization (level, %)*	n.a.	81.9	82.5	82.6	82.3	82.0	81.1	80.5	80.0	78.6
Civilian Unemployment Rate (level, %)	4.4	4.6	4.7	4.8	4.7	4.7	4.7	5.0	5.1	5.5
Housing Starts (thousands)*	n.a.	1772	1674	1760	1735	1873	2123	2060	2073	1950
Real Disposable Personal Income (% growth)	n.a.	10.4	2.6	2.8	3.7	1.7	4.6	5.5	1.2	3.6
Retail Sales (% growth)*	n.a.	-5.0	1.1	17.8	4.1	3.3	13.4	1.9	7.2	6.2
Personal Saving Rate (level, %)	n.a.	-0.2	-0.5	-0.8	-0.5	-0.6	-0.3	-0.3	-0.4	2.0
Inflation & Productivity										
CPI-U Inflation, all items (% growth)*	n.a.	-5.8	2.4	4.9	2.9	5.0	2.2	3.2	3.4	2.7
Core CPI-U Inflation (% growth)*	n.a.	2.4	2.4	2.4	3.0	3.5	2.4	2.4	2.2	1.8
Compensation per hour (% growth)	—	—	—	—	4.1	3.6	2.4	3.2	3.3	3.7
Output per hour (% growth)	—	—	—	—	0	1.2	4.3	-0.1	2.3	3.0
Financial Markets										
T-bill Rate, 3-month (level, %)	4.92	4.81	4.96	4.95	4.91	4.70	4.39	3.83	3.15	1.37
T-note Rate, 10-years (level, %)	4.73	4.72	4.88	5.09	4.90	5.07	4.57	4.49	4.29	4.27
Federal Funds Rate (level, %)	5.25	5.25	5.25	5.24	5.25	4.91	4.46	3.98	3.22	1.35
Dow Jones Industrial Avg (index level)	11963	11534	11257	11033	11274	11189	10996	10616	10548	10317

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Upcoming Economic Releases:

- **Advance Monthly Sales for Retail and Food Services: October 2006** [Release: Tuesday, November 14]
- **Manufacturing and Trade Inventories and Sales: September 2006** [Release: Tuesday, November 14]
- **Producer Price Indexes: October 2006** [Release: Tuesday, November 14]
- **Consumer Price Index: October 2006** [Release: Thursday, November 16]
- **Industrial Production and Capacity Utilization: October 2006** [Release: Thursday, November 16]
- **New Residential Construction: October 2006** [Release: Friday, November 17]